Indigo Airlines (2015)

In spite of the global financial crisis, the Indian domestic airline market grew 7.7% p.a. (in revenue passenger kms, RPK) between 2010 and 2014; it was also expected to be the fastest growing market in the world with a 9.5% annual rate of growth between 2013 and 2033. The major reasons driving this growth included strong economic growth, expansion of the middle class, growth in tourism, rail travel substitution, and expansion in airline infrastructure.

Indigo Airlines which had launched its services in 2006 with a single aircraft, had become the market leader by 2013. Indigo turned profitable within 3 years and remained consistently profitable in the subsequent five years – the only Indian airline to do so. During the 2009-2014 period, while Indigo increased its market share from 12.6% to 31.8%, Jet Airways lost share and the then market leader, Kingfisher Airlines went bankrupt. In FY15, the airline industry was estimated to have lost about Rs 80 billion, whereas Indigo profits for the year were estimated at Rs 10 billion.

Indigo adopted a counter-intuitive approach. Even as most airlines reduced their capacities (termed available seat kilometres, ASKs) in the aftermath of the global financial crisis (-0.8% cagr between 2008-2014 for the rest of the industry), Indigo added capacity at a 30.1% cagr. Indigo flew between fewer airports than smaller airlines but had more flights out of every location. It offered a no-frills product similar to the other low-cost carriers (LCCs) with a single class, no frequent flyer program, and meals sold on-board. Indigo highlighted its promise of on-time performance with its marketing campaign around Indigo Standard Time (IST). A major contributor to the on-time performance was the quick turnaround of Indigo aircrafts, at about 31 minutes against an industry average of over 45 minutes.

Indigo operated a single aircraft model across its network – the 180-seater Airbus A320. On the other hand, a full-service carrier like Jet Airways flew a mix of Boeing 737 series (156 economy and 12 business class seats) and ATR (68 seats) aircrafts. Indigo also had the youngest fleet in the industry, thereby resulting in lower maintenance costs. The emphasis on cost management was all pervasive in the organization. Its aircraft quality checks are done in nearby Sri Lanka (as against Dubai or Singapore) pilots are trained on how to fly efficiently to optimize fuel consumption, and even the in-flight magazine pages were reduced with a view to saving costs. Attrition at Indigo was amongst the lowest in the industry and it was able to attract the best talent from competitors. Indigo also enjoyed significantly lower finance costs (3-4% p.a. instead of the industry average of 12%) since its net debt was just about 1.1 times its EBITDAR (versus over 7x for Jet Airways).

The mantra at Indigo was that money is made when the aircrafts are in the air; being on the ground is expensive. Therefore, all staff members prioritized on the quick turn-around of aircraft. The aircraft repair and maintenance contracts were converted into “power by hour” models wherein the vendors are paid based on the number of hours that an aircraft is in the air, not for the spares or labour used towards maintenance. Indigo had a reliability level of 99.5%, amongst the highest in the world. Its aircrafts had an average flying time of 11.4 hours daily as against 9.4 hours for other Indian airlines.

The industry had recently seen the entry of two new airlines of the Tata group (low-cost Tata AirAsia and full-service Vistara); in spite of the increased competition, Indigo was optimistic about its future prospects. Aditya Ghosh, president of Indigo said that less than 1% of Indian railways passengers used air-travel. The airline confirmed its order for 250 new Airbus 320s for $26 Billion between 2018 and 2026. In mid-2015, it also launched the process for raising $400mn through an initial public offer (IPO).

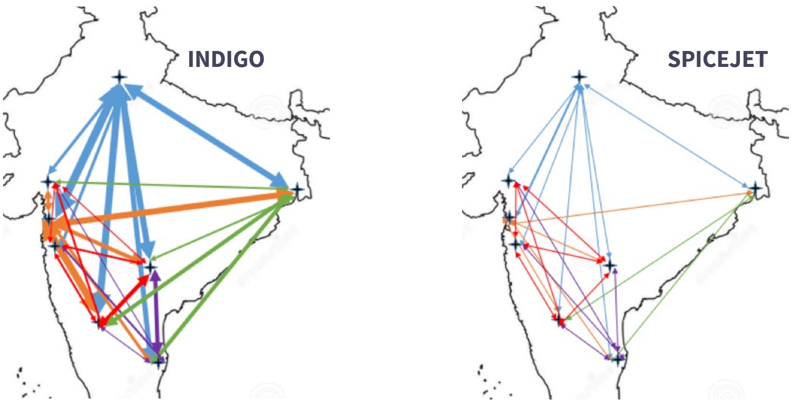
Srinivasa Addepalli wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation.

EXHIBIT 1: **Comparison of Major Indian Airlines on Key Parameters (2014-15)**

	Indigo	GoAir	SpiceJet	Jet Airways	Air India
Fleet Size	88	19	34	107	123
Fleet Age (y)	3.1	3.6	3.8	5.8	10.3
Destinations	31	22	39	50	69
Flights (p.a.)	148342	40710	112426	166049	113905
Flying Hrs (p.a.)	261951	73060	150116	281787	194726
On-time %	89.3	82.7	80.9	84.6	75.7
Cancelations %	0.3	0.38	1.89	0.42	1.58
Passengers (mn)	21.4	6.2	11.7	14.7	12.4
ASK (Bn)	23	5.9	10.6	11.9	11.5
ASK/Emp (Mn)	4.1	3.4	3.3	3.1	1.6
Revenue (Rs Bn)	114.3		64.0	194.4	
EBITDAR %	19.8	16.9	5.9	5.4	-9.0
Cost Structure (US cents / ASK)					
Maintenance	0.18	0.35	0.90	0.95	0.34
Fuel	3.07	3.37	2.94	3.23	3.47
Ownership	0.97	1.23	1.20	2.01	2.62
TOTAL	**5.95**	**6.37**	**6.68**	**9.05**	**9.82**

Source: Case writer analysis of Company Websites & Reports and DGCA Data for 2014/14-15

EXHIBIT 2: **Comparison of Density of Connections between 8 Indian Metros (H2-2015)**



Note: Only for representation purposes; map not to scale. Thickness of arrows proportional to number of daily flights between each pair of metros;

Source: Case writer analysis based on published flight schedules in September 2015.

EXHIBIT 3: **Airlines vs. Trains for Key Routes (Sep 2015)**

MUMBAI TO	**New Delhi**	**Bangalore**	**Ahmedabad**
Travel Time (hrs)			
Fastest Train	16h00m	22h18m	6h35m
Air Travel Time	2h05m	1h40m	1h10m
3-months Advance Fare (Rs)			
AC 1st Class Fare	4294	2016	2173
AC 3 Tier Fare	1778	1406	953
Indigo Fare	3081	2489	1076
Jet Airways Faref	5485	4220	4672

Source: Case writer analysis based on respective websites in September 2015.